

# Monthly Economic Update (MEU)

January 2024

**Economic Intelligence Unit  
The Ceylon Chamber of Commerce**



**EIU**

# Highlights

## Sri Lankan Economy

### IMF Staff Concludes Visit to Sri Lanka

The recent IMF mission to Sri Lanka noted positive economic indicators, including GDP growth, low inflation, and increased revenue. The IMF stressed the need to continue economic reforms for lasting recovery. The assessment of commitments will be part of the second review of the Extended Fund Facility (EFF) arrangement and the 2024 Article IV consultation.

### External Sector Performance

In November 2023, the trade deficit improved due to increased exports and reduced imports, marking the first year-on-year growth in exports since September 2022. Additionally, monthly workers' remittances consistently exceeded USD 500 million, experiencing a notable increase in December 2023, while tourist arrivals soared during the festive season, contributing to high earnings from tourism, and Gross Official Reserves reached USD 4.4 billion by the end of December 2023.

### Fiscal Sector Performance

The cumulative budget deficit saw a 6% reduction in the initial 10 months of 2023 compared to the corresponding period last year. This improvement was driven by a substantial 58% increase in tax revenue and a 16% uptick in non-tax revenue.

### Monetary Sector Performance

Market interest rates continued to adjust downwards, and most benchmark interest rates have declined significantly. With the moderation of market lending interest rates, credit to the private sector is expected to increase further in the period ahead, thereby supporting the envisaged rebound of domestic economic activity.

## Global Economy

### Word Bank Predicts a Further Slowdown in Growth

The World Bank predicts a global growth slowdown to 2.4% in 2024, marking the third consecutive year of deceleration. Tight monetary policies and geopolitical tensions, exacerbated by conflicts in the Middle East, pose risks to the global economy. Other concerns include financial stress, inflation, suboptimal growth in China, trade fragmentation, and climate change-related disasters.

### Over 70 Countries across the World to hold elections in 2024

In 2024, 76 elections will occur in countries representing over half of the global population. The Economist Intelligence Unit (EIU) expects 43 nations to have fully free and fair votes, with 27 being EU members. Unfortunately, the remaining 28 countries, including Bangladesh, Mexico, Pakistan, and Russia, fall short of essential democratic conditions, with regime change unlikely in some cases.

### WTO Lowers Trade Growth forecast amid Global Manufacturing Slowdown

A continued slump in goods trade that began in the fourth quarter of 2022 has led WTO economists to scale back their trade projections for the current year while maintaining a more positive outlook for 2024. The volume of world merchandise trade is now expected to grow by 0.8% this year, down from the 1.7% forecast in April, while the 3.3% growth projected for 2024 remains nearly unchanged from the previous estimate.

# Dashboard

Y-o-Y changes, otherwise specified

## Economic Growth

**1.6%** in Q3-2023

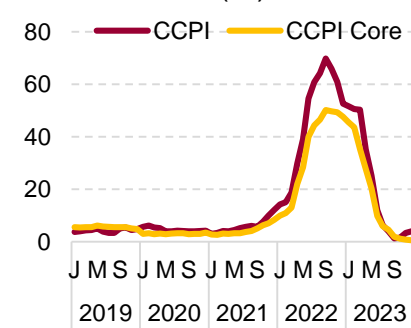
### Movement of Purchasing Managers' Index-Dec 2023

Manufacturing PMI **52.7**  
Services PMI **58.9**

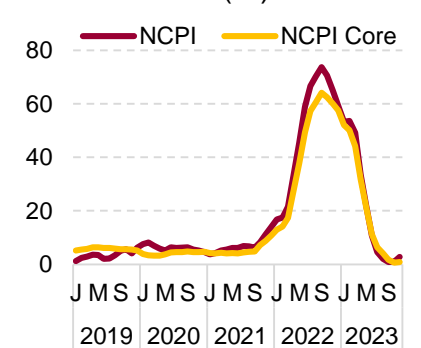
Both Manufacturing and Services Purchasing Managers' Indices increased in December 2023.

## Inflation

CCPI Inflation (%) - Base 2021



NCPI Inflation (%) - Base 2021

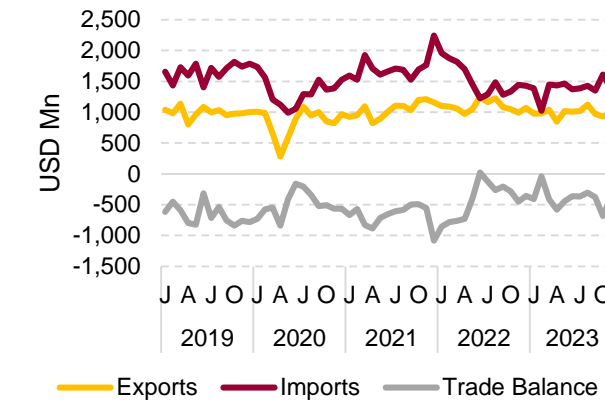


Dec. 2023  
Headline **4.0%**  
Core **0.6%**

Nov. 2023  
Headline **2.8%**  
Core **0.8%**

## External Sector

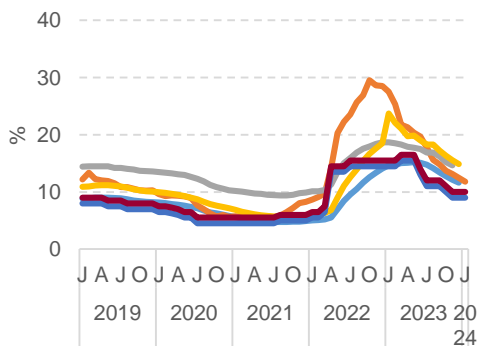
### Merchandise Trade



### Tourism

Nov. 2023	Dec. 2023
Exports <b>0.4%</b> ↑	Arrivals <b>129%</b> ↑
Imports <b>3.9%</b> ↓	Earnings <b>111%</b> ↑
<b>Workers' Remittances</b>	
Dec. 2023 <b>20%</b> ↑	

## Interest Rates



AWDR  
AWPR  
AWLR  
AWFDR  
SDFR (Repo)  
SLFR (Rev.Repo)

**SDFR: 9%**  
**SLFR: 10%**

### Growth in Credit to Private Sector

Nov 2023  
**3.1%** ↓

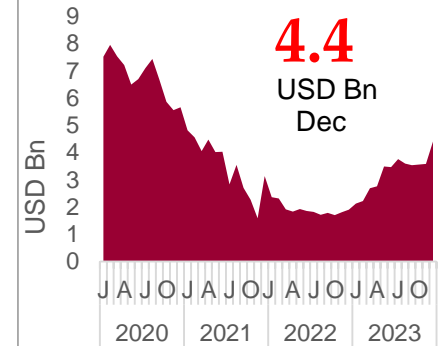
## Exchange Rate



**Appreciation of LKR thus far 2024**

**1.1%**

## Official Reserves



**4.4**  
USD Bn  
Dec

# KEY INSIGHTS

## Sri Lankan Economy

### IMF Staff Concludes Visit to Sri Lanka

A delegation from the International Monetary Fund (IMF), headed by Mr. Peter Breuer, conducted a mission to Sri Lanka from January 11 to 19, 2024. The purpose of the visit was to engage in discussions regarding recent macroeconomic developments and assess the advancements made in the implementation of economic and financial policies under the Extended Fund Facility (EFF) arrangement.

Here is a summary of the End-of-Mission press release include statement of IMF staff team that convey preliminary findings after a visit to a country.

The economic reform program implemented by the Sri Lankan authorities is yielding the first signs of recovery with positive real GDP growth in the third quarter of 2023, low inflation, increased revenue collection, and a build-up of external reserves.

Staying the course on the reform agenda is necessary for this stabilization to evolve into broad-based and stable growth that will ensure a full and lasting economic recovery benefitting the people.

Progress in meeting key commitments under the IMF-supported program will be formally assessed in the context of the second review of the Extended Fund Facility (EFF) arrangement alongside the forthcoming 2024 Article IV consultation assessing Sri Lanka's economic health.

#### Progress of the IMF Tracker



The IMF tracker is an online tool that tracks the progress on government commitments in Sri Lanka's 2023 IMF Programme. The tracker will be updated on a monthly basis. Assessment as at 12th December 2023 is as above. This tracker is owned by Verite Research Pvt. Ltd.

# KEY INSIGHTS

## Sri Lankan Economy

### Insights from Household Survey: Navigating the Economic Crisis Impact

The recently released report on the Household Survey on the Impact of the Economic Crisis by the Department of Census and Statistics provides valuable insights into the repercussions of the economic downturn on the nation. As per the survey, the adverse effects on children (aged 3-21) experiencing disruptions in schooling due to the economic crisis are substantial, with a national level prevalence of 54.9%. Breakdowns for the Urban, Rural, and Estate sectors reveal rates of 54.2%, 55.1%, and 55.1%, respectively. In response, 93.5% of households implemented at least one strategy to mitigate the impact nationally. The predominant strategies involved curtailing expenditure on new stationery and purchasing uniforms. Additional measures included reducing the frequency of attending tuition classes or transitioning to online learning, ranking as the third and fourth most adopted strategies.

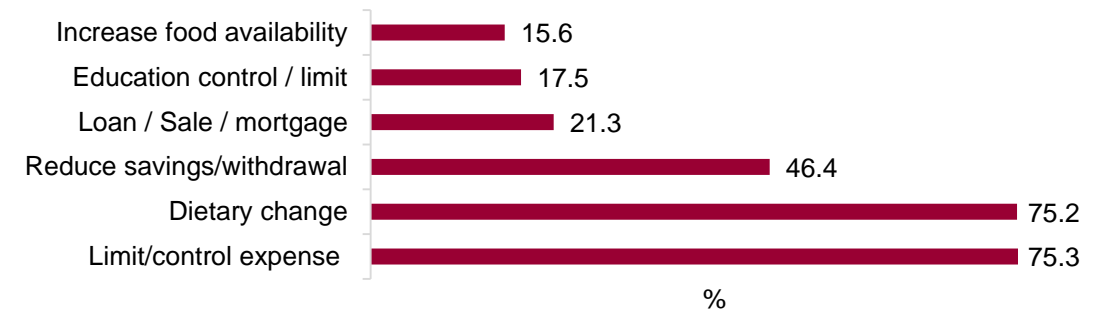
The economic crisis has had a pronounced impact on employment across various sectors in the country. A notable 14.2% of individuals (aged 15 years and older) engaged in economic activities suffered job losses during the crisis, with a higher percentage of males experiencing disruptions in their primary or secondary employment compared to females.

The ramifications of the economic crisis extend to household finances, encompassing both income and expenditure. A substantial 60.5% of households reported a decrease in their total income due to the crisis. The primary reasons cited include reduced working hours and diminished customer attendance. Notably, among households facing reduced income, a majority (73.6%) did not adopt any specific coping strategy. These findings underscore the profound and widespread impact of the economic crisis on various facets of the nation's socio-economic landscape. A significantly high proportion, approximately 97.2% of households, employed at least one coping strategy to manage their household expenditure.

Percentage distribution of individuals by their status of job loss and gender

	Lost only main job	Lost only secondary job	Lost main and secondary jobs	Didn't lose any job
<b>Sri Lanka</b>	14.2%	0.5%	0.4%	84.8%
<b>Male</b>	18.4%	0.8%	0.6%	80.2%
<b>Female</b>	8.3%	0.2%	0.1%	91.3%

Percentage distribution of coping strategies adopted on reduced household expenditure



# KEY INSIGHTS

## Global Economy

### World Bank Predicts a Further Slowdown in Growth

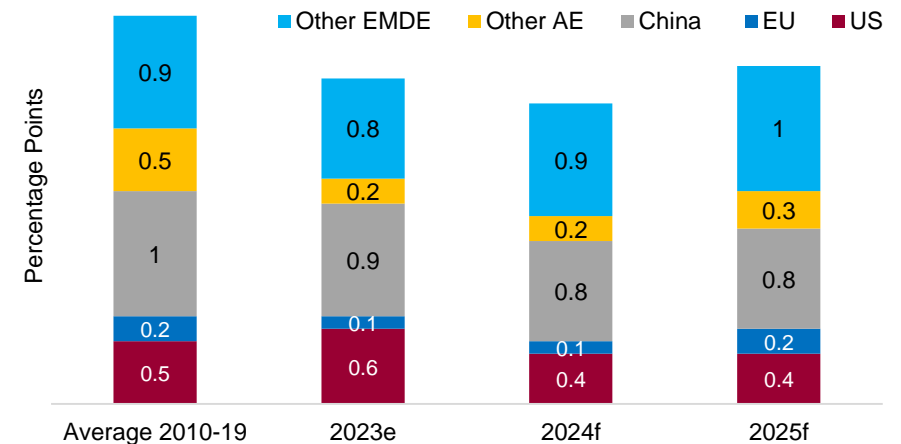
The latest “Global Economic Prospects” report by the World Bank projects a further slowdown in global growth this year, anticipating a deceleration to 2.4% in 2024—marking the third consecutive year of a gradual slowdown. This trend underscores the lingering and continuous impact of tight monetary policies aimed at curbing historically high inflation, navigating restrictive credit conditions, and addressing sluggish global trade and investment. The outlook is clouded by prevailing downside risks, notably exacerbated by recent conflicts in the Middle East following the Russian Federation’s invasion of Ukraine. These geopolitical tensions carry the potential for escalated conflict, leading to a surge in energy prices and broader repercussions on global economic activity and inflation. Additional risks include financial stress associated with heightened real interest rates, persistent inflation, suboptimal growth in China, ongoing trade fragmentation, and the increasing frequency of climate change-related disasters.

In advanced economies (AE), growth is anticipated to hit a bottom of 1.2% in 2024, primarily due to a slowdown in the United States, while the euro area experiences a modest pickup propelled by lower inflation fostering real wage growth. Looking ahead to 2025, advanced economies are forecasted to rebound to 1.6%, driven by ongoing recovery in the euro area and a gradual uptick in U.S. growth, aided by diminishing inflation and more accommodative monetary policies.

Emerging Market and Developing Economies (EMDEs) are projected to sustain an average growth of 3.9% per year over 2024-25. China’s growth is expected to notably decelerate this year, influenced by tepid consumer sentiment and persistent challenges in the property sector. Excluding China, EMDE growth is poised to strengthen from 3.2% in 2023 to 3.5% in the current year and further to 3.8% in 2025. This upturn is attributed to a rebound in trade and improved domestic demand in several large economies, coupled with a decline in inflation. Despite these positive trends, elevated borrowing costs will persist, placing continued pressure on fiscal space in EMDEs, particularly in countries with weaker creditworthiness, where U.S. dollar-denominated bond yields exceed nominal GDP growth rates.

	Projections %	
	2024	2025
<b>Advanced Economies</b>	1.2	1.6
United States	1.6	1.7
Euro Area	0.7	1.6
Japan	0.9	0.8
<b>EMDEs</b>	3.9	4.0
China	4.5	4.3
India	6.4	6.5
Russia	1.3	0.9
Thailand	3.2	3.1
Mexico	2.6	2.1
Saudi Arabia	4.1	4.2

Contributions to Global Growth



# KEY INSIGHTS

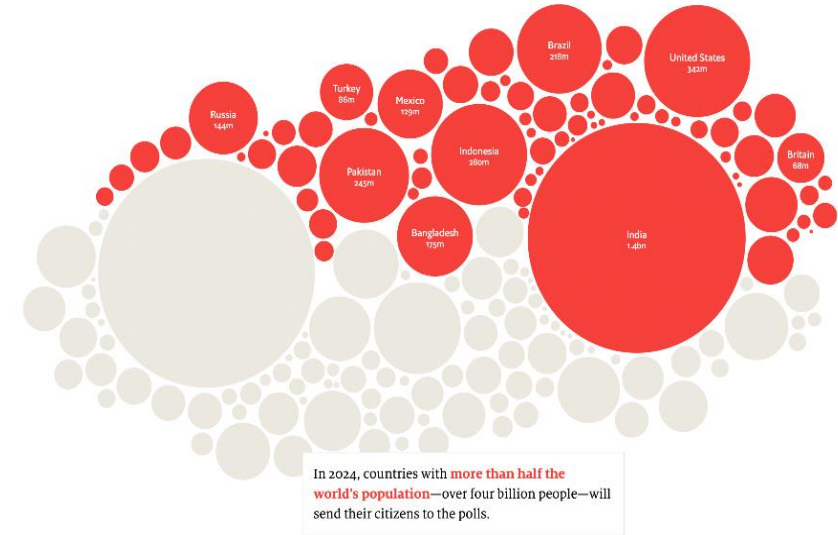
## Global Economy

### Over 70 Countries across the World to hold elections in 2024

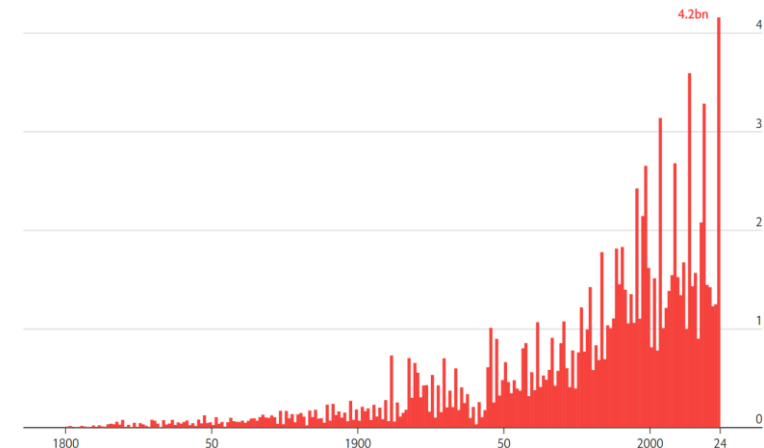
There will be 76 elections in 2024 in countries that are home to around 4.2bn people—for the first time, more than half of the global population. According to the Economist Intelligence Unit (EIU) Democracy Index covering 71 - nations 43 are expected to witness fully free and fair votes, with 27 of them being EU members. Regrettably, the remaining 28 countries fall short of meeting essential democratic conditions. Among the ten most populous countries globally, including Bangladesh, Brazil, India, Indonesia, Mexico, Pakistan, Russia, and the United States, elections are anticipated. However, in half of these nations, elections lack the attributes of freedom and fairness, with several prerequisites of democracy, such as freedom of speech and association, notably absent. Notably, elections in Bangladesh, Mexico, Pakistan (all categorized as hybrid regimes combining elements of democracy and authoritarianism), and Russia (an authoritarian regime) are unlikely to result in regime change.

Meanwhile, Brazil, India, Indonesia, United States and Sri Lanka fall under the classification of "flawed democracies" by the EIU. While their elections are considered free, fair, and open to the possibility of change, these countries exhibit weaknesses in their political systems. The forthcoming U.S. elections in November, encompassing the presidential race, the entire House of Representatives, and a third of the Senate, are poised to capture global attention. Taiwan's January vote will be closely watched, influencing the island's relations with China during a critical juncture.

In terms of global distribution, Europe (37 countries) and Africa (18 countries) will witness the highest number of elections in 2024. While Western Europe has a high average index score of 8.4, the Middle East and North Africa region has the lowest overall score at 3.3, and sub-Saharan Africa is not far ahead at 4.1. The European Parliament elections in June are anticipated to bring migration issues to the forefront, particularly as the EU is projected to receive over 1 million asylum applications this year.



People in countries with an election that year, bn



# Evolving Landscape

With the aim of keeping our members updated on latest global trends, especially those influencing Sri Lanka, 'Evolving Landscape' section was added to the MEU. This section guide our members in strategic planning, innovation and competitiveness and helping them identify sector-specific opportunities and challenges.

## Davos 2024: World Economic Forum

The annual meeting of the World Economic Forum in Davos, Switzerland, convened a diverse assembly of 3,000 participants hailing from across the globe. Among them were 1,600 business leaders, 350 heads of state and government ministers, and a multitude of academics, civil society leaders, and entrepreneurs. Several key highlights emerged from this influential gathering:

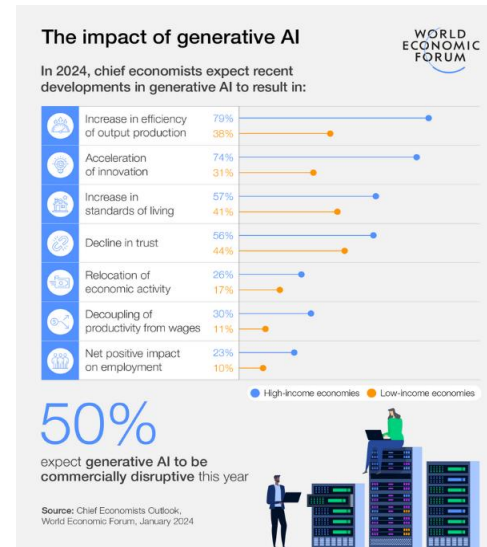
**The Super Election Year 2024:** With elections scheduled in countries collectively home to 4.2 billion people, democratic leaders voiced concerns about the rising threats of fascism, nationalism, disinformation, and various risks challenging free societies. French President Emmanuel Macron underscored the critical juncture facing European countries and the EU in deciding their stance on sovereignty in the upcoming elections.

**2024 Outlook:** The World Economic Forum's (WEF) latest survey of chief economists, conducted in November and December, revealed a nuanced global economic outlook for 2024. While 56% of respondents anticipated a weakening global economy, the remaining 44% expressed optimism. Notably, the outlook for South Asia, East Asia, and the Pacific retained positivity, with a significant majority foreseeing at least moderate growth in the year ahead.

**Asia's Tourism Growth:** Jane Sun, CEO of global travel service provider Trip.com Group, shared an optimistic perspective on the growth and investment potential of Asia's travel and tourism market. Highlighting strong booking interest in Asian destinations like Thailand, Japan, and South Korea, Sun pointed to rising consumer incomes driving trends such as wellness experiences and event tourism, particularly cantered around sought-after highlights like concerts and music festivals.

**Focusing on the AI-Era Job Market:** The International Monetary Fund's "Gen-AI: Artificial Intelligence and the Future of Work" report, unveiled at Davos, delivered a stark revelation—up to 60% of jobs in advanced economies are at risk due to AI. This alarming statistic spurred intensive discussions on the future of work, emphasizing the urgent need for skills training and adaptation. A panel featuring CEOs from major corporations delved into AI's role in enhancing workplace productivity, and French President Emmanuel Macron stressed the imperative of job creation, particularly in green sectors. The "Race to Reskill" session underscored technology's pivotal role in facilitating rapid skill development to navigate the challenges posed by an AI-driven labour market.

**Sri Lanka, an ideal place to invest in:** Sri Lanka's renewable energy sector came under international spotlight this week with President Ranil Wickremesinghe calling on investors to take part in the island nation's sustainability agenda. Wickremesinghe assured potential investors that Sri Lanka's renewable energy sector has the potential to yield substantial benefits for both stakeholders and consumers in the coming decades. He also pointed out that wind power is a major opportunity for Sri Lanka, and drew reference to a recent World Bank report which indicated that off-shore wind power in particular has the potential to generate power far greater than Sri Lanka's requirements. By 2050 the country has committed to achieving net zero carbon emission.





# Datasheet

Latest Available data

External Trade (USD Mn)	Nov-2023	Month Ago	Year Ago
<b>Exports</b>	999	928	995
Agricultural Exports	215	200	199
Industrial Exports	765	723	792
<b>Imports</b>	1,389	1,611	1,445
Consumer Goods	265	263	223
Intermediate Goods	868	1,085	1,012
Investment Goods	255	259	209
<b>Trade Balance</b>	-390	-683	-449
<b>Tourist Arrivals (No.)</b>	210,352 (Dec)	151,496	91,961
<b>Tourism Earnings</b>	269 (Dec)	205	127
<b>Workers' Remittances</b>	568 (Dec)	537	476
Inflation (%)	Dec 2023	Month Ago	
<b>CCPI (2021 base)</b>			
Headline	4.0	3.4	
Core	0.6	0.8	
<b>NCPI (2021 base)</b>			
Headline	2.8 (Nov)	1.0	
Core	0.8 (Nov)	0.6	
Interest Rates (%)		Month Ago	Year Ago
AWPR	11.78 (Jan)	12.46	
AWLR	14.66 (Nov)	15.18	
AWDR	11.64 (Dec)	12.11	
AWFDR	14.88 (Dec)	15.54	
SDFR	9.00	9.00	
SLFR	10.00	10.00	
Growth in Credit to Private Sector	-3.1 (Nov)	-4.3	9.8
Fiscal Sector (LKR Bn)		2023 (Jan-Oct)	Year Ago
Revenue and Grants		2,434	1,588
Expenditure and Net Lending		3,981	3,235

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Economic Intelligence Unit  
of The Ceylon Chamber  
of Commerce

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